

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT OF THE
MONROE COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Monroe County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Monroe County Fiscal Court.

Financial Condition:

The Monroe County Fiscal Court had total receipts of \$4,642,982 and disbursements of \$4,449,074 in fiscal year 2015. This resulted in a total ending fund balance of \$2,035,398, which is an increase of \$193,908 from the prior year.

Report Comment:

2015-001 The Jail Commissary Lacks An Adequate Segregation Of Duties Over Accounting Functions

Deposits:

The Fiscal Court's deposits as of August 31, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$46,703

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MONROE COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	6
NOTES TO FINANCIAL STATEMENT.....	9
BUDGETARY COMPARISON SCHEDULES	19
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	24
SCHEDULE OF CAPITAL ASSETS	27
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	28
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	31
COMMENT AND RECOMMENDATION	35
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Monroe County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Monroe County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912

WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Monroe County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Monroe County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Monroe County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Monroe County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying budgetary comparison schedules and capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016 on our consideration of Monroe County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Monroe County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2015-001 The Jail Commissary Lacks An Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

January 12, 2016

MONROE COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Tommy Willett	County Judge/Executive
Alonzo Ford	Magistrate
Roger Deckard	Magistrate
Ricky Bartley	Magistrate
Mitchell Page	Magistrate
Karen Gordon	Magistrate

Other Elected Officials:

Wesley Stephens	County Attorney
Elmer Doyle Fox	Jailer
Teresa Sheffield	County Clerk
Joyce Emberton	Circuit Court Clerk
Dale "Frog" Ford	Sheriff
Louis L. Carter	Property Valuation Administrator
Jackie Waldon	Coroner

Appointed Personnel:

Sheryl Conkin	County Treasurer
Sheila Sheffield	Finance Officer
Beverly Harper	Occupational Tax Administrator

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,462,443	\$	\$
In Lieu Tax Payments	88,943		
Excess Fees	49,448		
Licenses and Permits	17,769		
Intergovernmental	329,921	1,541,770	125,693
Charges for Services			12,575
Miscellaneous	9,593	1,074	10,554
Interest	1,997	1,603	23
Total Receipts	<u>1,960,114</u>	<u>1,544,447</u>	<u>148,845</u>
DISBURSEMENTS			
General Government	682,187		
Protection to Persons and Property	100,549		393,185
General Health and Sanitation	10,883		
Social Services	11,106		
Recreation and Culture	9,838		
Roads		1,583,749	
Airport			
Debt Service			
Capital Projects		49,877	
Administration	480,930	55,257	80,513
Total Disbursements	<u>1,295,493</u>	<u>1,688,883</u>	<u>473,698</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>664,621</u>	<u>(144,436)</u>	<u>(324,853)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			330,000
Transfers To Other Funds	(330,000)		
Total Other Adjustments to Cash (Uses)	<u>(330,000)</u>		<u>330,000</u>
Net Change in Fund Balance	334,621	(144,436)	5,147
Fund Balance - Beginning (Restated)	940,103	627,625	12,667
Fund Balance - Ending	<u>\$ 1,274,724</u>	<u>\$ 483,189</u>	<u>\$ 17,814</u>
Composition of Fund Balance			
Bank Balance	\$ 1,305,337	\$ 496,166	\$ 34,395
Less: Outstanding Checks	(30,613)	(12,977)	(16,581)
Fund Balance - Ending	<u>\$ 1,274,724</u>	<u>\$ 483,189</u>	<u>\$ 17,814</u>

The accompanying notes are an integral part of the financial statement.

MONROE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds		Unbudgeted Funds		
Local Government Economic Assistance Fund	Grant Fund	Public Properties Corporation Fund	Jail Commissary Fund	Total Funds
\$	\$	\$	\$	\$ 1,462,443
				88,943
				49,448
				17,769
37,223	189,262	740,340		2,964,209
			20,178	32,753
2,354				23,575
199		13	7	3,842
<u>39,776</u>	<u>189,262</u>	<u>740,353</u>	<u>20,185</u>	<u>4,642,982</u>
5,000				687,187
33,285	189,262		17,759	734,040
				10,883
				11,106
				9,838
				1,583,749
5,354				5,354
		738,840		738,840
				49,877
		1,500		618,200
<u>43,639</u>	<u>189,262</u>	<u>740,340</u>	<u>17,759</u>	<u>4,449,074</u>
(3,863)		13	2,426	193,908
				330,000
				(330,000)
(3,863)		13	2,426	193,908
119,056	3	129,850	12,186	1,841,490
<u>\$ 115,193</u>	<u>\$ 3</u>	<u>\$ 129,863</u>	<u>\$ 14,612</u>	<u>\$ 2,035,398</u>
\$ 115,193	\$ 3	\$ 129,863	\$ 15,181	\$ 2,096,138
			(569)	(60,740)
<u>\$ 115,193</u>	<u>\$ 3</u>	<u>\$ 129,863</u>	<u>\$ 14,612</u>	<u>\$ 2,035,398</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	9
NOTE 2.	DEPOSITS.....	12
NOTE 3.	TRANSFERS	12
NOTE 4.	LONG-TERM DEBT.....	12
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM	13
NOTE 6.	INSURANCE	15
NOTE 7.	PRIOR PERIOD ADJUSTMENT.....	15

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Monroe County includes all budgeted and unbudgeted funds under the control of the Monroe County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds, and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the Fiscal Court in the acquisition and financing of any public project which may be undertaken by the Fiscal Court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the Fiscal Court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The following entities: Monroe County Fire and Rescue Squad and Monroe County Recreation, Tourist, and Convention Commission would have been included in the reporting entity under accounting principles generally accepted in the United State of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis they are no longer are required components of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Grant Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Unbudgeted Funds

The Fiscal Court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the Fiscal Court does not approve the expenses of this fund.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Monroe County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Monroe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Monroe County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 2. Deposits

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Fiscal Court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$46,703

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Total Transfers In
Jail Fund	\$ 330,000	\$ 330,000
Total Transfers Out	<u>\$ 330,000</u>	<u>\$ 330,000</u>

Reason for transfers:

To move resources from the General Fund, for budgetary purposes, to the Jail Fund to expend them.

Note 4. Long-term Debt

A. First Mortgage Revenue Bonds, 2009

On December 1, 2009, the Monroe County Public Properties Corporation issued revenue bonds of \$10,005,000 to pay off the 2008 Series notes, which were originally issued for the purpose of constructing a Judicial Center, and to further the construction of the Judicial Center. The principal is payable annually on November 1 and the final payment is due November 1, 2028. Interest is payable semi-annually on May 1 and November 1 of each year at varying rates. As of June 30, 2015, the outstanding principal balance was \$7,930,000. Future principal and interest requirements are:

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, 2009 (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2016	\$ 445,000	\$ 297,005
2017	460,000	283,430
2018	470,000	269,245
2019	485,000	253,958
2020	505,000	237,118
2021-2025	2,840,000	866,400
2026-2029	<u>2,725,000</u>	<u>236,783</u>
Totals	<u>\$ 7,930,000</u>	<u>\$ 2,443,939</u>

B. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 8,360,000	\$	\$ 430,000	\$ 7,930,000	\$ 445,000
Total Long-term Debt	<u>\$ 8,360,000</u>	<u>\$ 0</u>	<u>\$ 430,000</u>	<u>\$ 7,930,000</u>	<u>\$ 445,000</u>

Note 5. Employee Retirement System

A. Plan Description

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

A. Plan Description (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$170,078, FY 2014 was \$172,753, and FY 2015 was \$160,652.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

B. Net Pension Liability

As promulgated by GASB Statements No. 67 and 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The net pension liability for employers participating in CERS is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, KRS has determined that Monroe County's proportionate share of the net pension liability as of June 30, 2015 is:

	June 30, 2014	June 30, 2015
Non-Hazardous	\$ 1,477,000	\$ 1,306,000
Totals	<u>\$ 1,477,000</u>	<u>\$ 1,306,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 6. Insurance

For the fiscal year ended June 30, 2015, Monroe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Prior Period Adjustment

The beginning fund balance reported on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis for the Jail Commissary Fund has been restated by an increase of \$358. The restatement is due to the exclusion of \$206 in outstanding checks on the prior year financial statement and the timing difference in recording \$564 of jail fees paid to County, for a net increase of \$358.

THIS PAGE LEFT BLANK INTENTIONALLY

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,217,600	\$ 1,217,600	\$ 1,462,443	\$ 244,843
In Lieu Tax Payments	60,000	60,000	88,943	28,943
Excess Fees	40,000	40,000	49,448	9,448
Licenses and Permits	18,100	18,100	17,769	(331)
Intergovernmental	256,900	266,900	329,921	63,021
Miscellaneous	10,000	10,000	9,593	(407)
Interest	1,000	1,000	1,997	997
Total Receipts	1,603,600	1,613,600	1,960,114	346,514
DISBURSEMENTS				
General Government	731,043	764,365	682,187	82,178
Protection to Persons and Property	94,890	107,407	100,549	6,858
General Health and Sanitation	11,613	11,657	10,883	774
Social Services	17,000	17,480	11,106	6,374
Recreation and Culture	10,300	10,300	9,838	462
Administration	564,369	528,006	480,930	47,076
Total Disbursements	1,429,215	1,439,215	1,295,493	143,722
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	174,385	174,385	664,621	490,236
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	83,615	83,615		(83,615)
Transfers To Other Funds	(458,000)	(458,000)	(330,000)	128,000
Total Other Adjustments to Cash (Uses)	(374,385)	(374,385)	(330,000)	44,385
Net Change in Fund Balance	(200,000)	(200,000)	334,621	534,621
Fund Balance Beginning	200,000	200,000	940,103	740,103
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,274,724	\$ 1,274,724

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,516,553	\$ 1,516,553	\$ 1,541,770	\$ 25,217
Miscellaneous	26,000	26,000	1,074	(24,926)
Interest	1,000	1,000	1,603	603
Total Receipts	1,543,553	1,543,553	1,544,447	894
DISBURSEMENTS				
Roads	1,375,738	1,953,486	1,583,749	369,737
Capital Projects		49,877	49,877	
Administration	84,200	84,200	55,257	28,943
Total Disbursements	1,459,938	2,087,563	1,688,883	398,680
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	83,615	(544,010)	(144,436)	399,574
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(83,615)	(83,615)		83,615
Total Other Adjustments to Cash (Uses)	(83,615)	(83,615)		83,615
Net Change in Fund Balance		(627,625)	(144,436)	483,189
Fund Balance Beginning		627,625	627,625	
Fund Balance - Ending	\$ 0	\$ 0	\$ 483,189	\$ 483,189

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 93,200	\$ 93,200	\$ 125,693	\$ 32,493
Charges for Services	11,000	11,000	12,575	1,575
Miscellaneous	8,000	8,000	10,554	2,554
Interest			23	23
Total Receipts	112,200	112,200	148,845	36,645
DISBURSEMENTS				
Protection to Persons and Property	466,650	465,032	393,185	71,847
Administration	103,550	105,168	80,513	24,655
Total Disbursements	570,200	570,200	473,698	96,502
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(458,000)	(458,000)	(324,853)	133,147
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	458,000	458,000	330,000	(128,000)
Total Other Adjustments to Cash (Uses)	458,000	458,000	330,000	(128,000)
Net Change in Fund Balance			5,147	5,147
Fund Balance Beginning			12,667	12,667
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,814	\$ 17,814

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 37,223	\$ (2,777)
Miscellaneous			2,354	2,354
Interest			199	199
Total Receipts	40,000	40,000	39,776	(224)
DISBURSEMENTS				
General Government	10,000	7,646	5,000	2,646
Protection to Persons and Property	40,700	40,700	33,285	7,415
Airport	3,000	5,354	5,354	
Total Disbursements	53,700	53,700	43,639	10,061
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(13,700)	(13,700)	(3,863)	9,837
Net Change in Fund Balance	(13,700)	(13,700)	(3,863)	9,837
Fund Balance Beginning	13,700	13,700	119,056	105,356
Fund Balance - Ending	\$ 0	\$ 0	\$ 115,193	\$ 115,193

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

GRANT FUND			
	Budgeted Amounts		Actual
	Original	Final	Amounts, (Budgetary Basis)
			Variance with Final Budget Positive (Negative)
RECEIPTS			
Intergovernmental	\$	\$ 196,014	\$ 189,262
Total Receipts		196,014	189,262
			(6,752)
DISBURSEMENTS			
Protection to Persons and Property		196,014	189,262
Total Disbursements		196,014	189,262
			6,752
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			
Net Change in Fund Balance			
Fund Balance Beginning			3
			3
Fund Balance - Ending	\$ 0	\$ 0	\$ 3
			\$ 3

MONROE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

MONROE COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

MONROE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The Fiscal Court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 482,400	\$	\$	\$ 482,400
Construction In Progress	397,499		397,499	
Buildings	11,933,027			11,933,027
Other Equipment	938,689	41,404		980,093
Vehicles	372,551	2,500		375,051
Infrastructure	7,343,745	1,540,018		8,883,763
	<u>7,343,745</u>	<u>1,540,018</u>	<u></u>	<u>8,883,763</u>
 Total Capital Assets	 <u>\$ 21,467,911</u>	 <u>\$ 1,583,922</u>	 <u>\$ 397,499</u>	 <u>\$22,654,334</u>

MONROE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Monroe County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Monroe County Fiscal Court's financial statement and have issued our report thereon dated January 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Monroe County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Monroe County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2015-001 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

January 12, 2016

**MONROE COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2015

MONROE COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2015-001 The Jail Commissary Lacks An Adequate Segregation Of Duties Over Accounting Functions

A lack of segregation of duties exists over the jail commissary accounting functions. These control deficiencies are present because the bookkeeper receives the mail, prepares and deposits receipts, prepares and signs checks, and performs the monthly bank reconciliation. This condition is a result of a limited budget, which restricts the number of employees the county can hire or delegate duties to. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. In addition, a proper segregation of duties protects employees in the normal course of performing their daily duties. We recommend the Jailer separate the duties in preparing and depositing receipts, recording transactions, preparing and signing checks, and reconciling bank accounts. If these duties cannot be segregated due to a limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. In addition, any compensating controls performed should be documented.

County Judge/Executive's Response: No response.

County Jailer's Response: No response.

THIS PAGE LEFT BLANK INTENTIONALLY

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

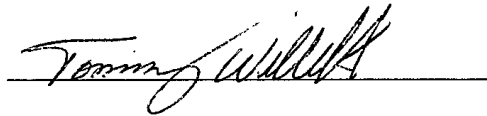
MONROE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

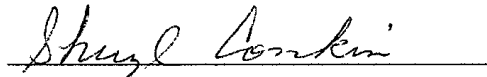
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
MONROE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Monroe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "Tommy Wilk", is written over a horizontal line.

County Judge/Executive

A handwritten signature in cursive script, appearing to read "Sheryl Conkin", is written over a horizontal line.

County Treasurer

